

HANCOCK PUBLIC SCHOOLS
HANCOCK, MICHIGAN

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2005

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Bruce A Rukkila, CPA, PC

*Full Service Accounting Firm
for the Western Upper Peninsula*

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hancock Public Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hancock Public Schools's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 11, 2005



Bruce A Rukkila, CPA, PC

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the general purpose financial statements of Hancock Public Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hancock Public Schools' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 11, 2005

Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

This section of Hancock Public Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

Revenue has decreased for this year due to tax reporting issues in conjunction with SmartZone tax captures and TIFA District reporting errors with the State of Michigan.

In March of 2005, the District received information that the Captured Assessed Valuation (CAV) for the district was overstated resulting in excess school aid of \$267,182 to the district. The School District is required to make repayments to the state and the repayments are to be spread over five years and made through reductions in the state aid payment in May of each year.

The SmartZone captures 9 mills of the 18 mills from the operating taxes. This capture reduces tax revenue for operating funds in half for SmartZone area property. The total equalized SmartZone value of this area was \$3,416,155 for the 2004-2005 tax year. This capture does not affect the debt retirement levy.

Personal property taxes receivables were adjusted \$58,000 for estimated uncollectible amounts, thus reducing the schools available General Fund fund balance by a like amount. This recapture reduced operating taxes by around \$29,000 in 2000-05.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Overviews of the Financial Statements - Continued

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased, capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, School Food Service, and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, School Food Service and Athletic Funds.

Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

Summary of Net Assets

	2005	2004
Assets		
Current and other assets	\$ 1,440,309	\$ 1,654,894
Restricted investments	6,619,870	3,611
Capital assets - Net of accumulated depreciation	11,302,927	11,743,008
Total Assets	<u>\$ 19,363,106</u>	<u>\$13,401,513</u>
Liabilities		
Current liabilities	\$ 9,613,898	\$ 3,049,316
Long-term liabilities	13,311,468	13,514,752
Total Liabilities	<u>22,925,366</u>	<u>16,564,068</u>
Net Assets		
Invested in property and equipment - net of related debt	(3,200,675)	(3,171,498)
Restricted	66,594	56,512
Unrestricted	(428,179)	(47,569)
Total net assets	<u>(3,562,260)</u>	<u>(3,162,555)</u>
Total Liabilities and Net Assets	<u>\$ 19,363,106</u>	<u>\$13,401,513</u>

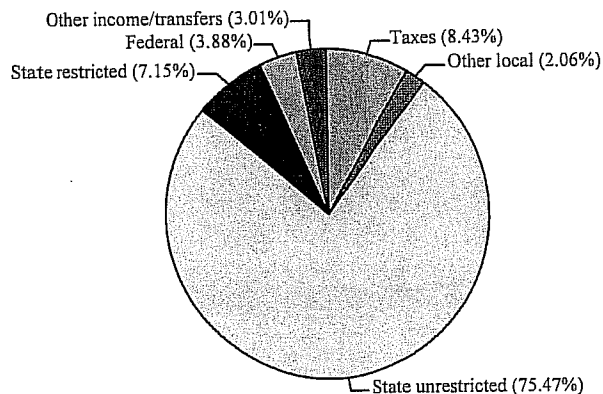
Results of Operations in Governmental Activities

	2005	2004
Program Revenue:		
Charges for services	\$ 208,243	\$ 213,924
Grants and contributions	994,526	1,006,309
General Revenue:		
Property taxes	1,722,769	1,690,128
State foundation allowance	5,454,170	5,749,940
Other	341,686	309,153
Total Revenue	<u>8,721,394</u>	<u>8,969,454</u>
Functions/Program Expenses		
Instruction	5,421,328	5,484,580
Support services	2,433,297	2,424,673
School food services	359,494	381,292
Athletics	178,080	157,735
Interest on long-term debt	582,224	1,500,881
Other debt	146,676	2,192
Total Expenses	<u>9,121,099</u>	<u>9,951,353</u>
Change in Net Assets	(399,705)	(981,899)
Net Assets - Beginning	(3,162,555)	(2,180,656)
Net Assets - Ending	<u>\$(3,562,260)</u>	<u>\$(3,162,555)</u>

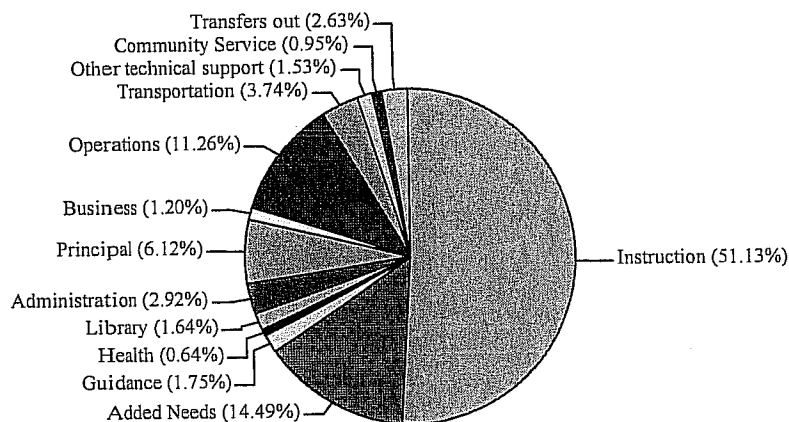
Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

The following charts highlight the District's General Fund activities:

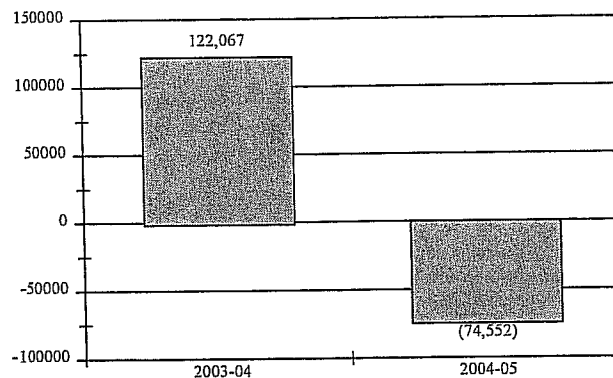
2004-05 Revenues



2004-05 Expenditures



Fund Balance Comparison



Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 7,486,989	\$ 7,622,068	\$ (135,079)
Expenditures/Transfers	\$ 7,683,608	\$ 7,582,969	\$ 100,639
Fund Balance	\$ (74,552)	\$ 122,067	\$ (196,619)
Debt Retirement Fund:			
Revenues/Transfers	\$ 1,108,952	\$ 1,132,681	\$ (23,729)
Expenditures/Transfers	\$ 1,098,870	\$ 1,136,175	\$ (37,305)
Fund Balance	\$ 66,594	\$ 56,512	\$ 10,082
School Food Service Fund:			
Revenues	\$ 361,090	\$ 371,719	\$ (10,629)
Expenditures	\$ 356,011	\$ 366,991	\$ (10,980)
Fund Balance	\$ (1,386)	\$ (6,465)	\$ 5,079
Athletic Fund:			
Revenues/Transfers	\$ 162,727	\$ 154,488	\$ 8,239
Expenditures/Transfers	\$ 169,457	\$ 149,114	\$ 20,343
Fund Balance	\$ 5,934	\$ 12,664	\$ (6,730)

General Fund - The main decrease in revenue is related to the State Aid revenue in conjunction with a decrease in enrollment and adjustments due to the Captured Assessed Valuation error as mentioned in the financial highlights. Increases in health care and retirement are the major changes in expenditures.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. The District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

On November 30, 2004 the District issued \$6,720,000 of general obligation unlimited tax refunding bonds to advance refund \$6,635,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds.

School Food Service Fund - The Food Service program for the District reduction of expenditures equal the decrease in revenues. The General Fund has not been required to make operating transfers recent years to the School Food Service Fund.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The increase in expenditures include the wage for the athletic director and increase in wages for coaches as required through contract negotiations. Other expenditures include new football jerseys and new equipment for the girls basketball program.

Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 21, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

Changes between original and final budget

Local	Minimal Change
State	Increase of \$45,556 primarily due to the change in enrollment numbers.
Federal	Decrease of \$27,737 represents Title I grant changes.
Instruction	Minimal Change
Supporting	A majority of the increase of \$73,510 were in three areas: Transportation costs which included a new bus purchase, increased repairs for old fleet, fuel costs increases and substitute and overtime expenses totaled \$34,858. Technology area had an increase of \$12,601 for computer maintenance throughout the district. Operation and maintenance had increases in insurance, electricity and unemployment for \$14,071. Health insurance increases and buy out expenditures in various areas make up the difference.

Variances between final budget and actual

Local	Decrease in the amount of \$68,521 represents the adjustment of tax revenue representing the change in taxable value amounts.
State	Minimal Change
Federal	Decrease of \$16,093. Reimbursements for Title I program were down due to decreased expenditures in those programs.
Instruction	Increase of \$39,092 includes expenditures for early retirement incentive in the area of high school, At-Risk expenses for Americorp program and salary increase and the increase of health insurance for high and middle school counselor.
Supporting	Increase represents elementary principal sick leave payout in the amount of \$5,760 and increase of electricity expenses \$8,541.
Community	Minimal Change

Hancock Public Schools
Management's Discussion and Analysis
June 30, 2005

Capital Assets and Debt Administration

Capital Assets: The District's net investment in capital assets decreased by \$440,081 during the fiscal year. The district purchased a PA System this year for the football field. No debt was issued for this addition. The decrease was due to depreciation.

Additional information on the District's capital assets can be found on a page 26 of this report.

Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$20,254,882. This total amount is backed by the full faith and credit of the District. The District's total debt was increased by \$6,282,274 during the fiscal year due to advanced refunding and the School Bond Loan Fund's accrued interest was increased by \$109,902.

Additional information on the District's long-term debt can be found on a page 27 of this report.

Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175, the first in three years.

Approximately seventy-eight percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against project State Aid to meet payroll needs during the months of August and September. The borrowing has remained constant at \$1,200,000 over the past two years and for the school year 2004-05.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Hancock Public Schools.

HANCOCK PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 142,924
Investments	1,920
Taxes receivable	97,257
Accounts receivable	48,082
Due from other governmental units	<u>1,150,126</u>
TOTAL CURRENT ASSETS	<u>1,440,309</u>
NON-CURRENT ASSETS:	
Restricted cash	12,755
Restricted investments	<u>6,607,115</u>
Total Restricted Assets	<u>6,619,870</u>
Capital assets	17,420,068
Less: Accumulated depreciation	<u>(6,117,141)</u>
Net Capital Assets	<u>11,302,927</u>
TOTAL NON-CURRENT ASSETS	<u>17,922,797</u>
TOTAL ASSETS	<u>\$ 19,363,106</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 15,379
Accrued expenses	246,025
Accrued interest	1,051,800
Deferred revenue	1
State Aid repayment short-term	53,437
Short-term note payable	1,195,069
Notes payable within one year	2,899
Bonds payable within one year	<u>7,049,288</u>
TOTAL CURRENT LIABILITIES	<u>9,613,898</u>
NON-CURRENT LIABILITIES	
Bonds payable, due in more than one year	9,962,308
Installment loans payable, due in more than one year	4,223
Compensated absences	162,210
State Aid repayment	142,528
School bond loan fund payable	<u>3,040,199</u>
TOTAL NON-CURRENT LIABILITIES	<u>13,311,468</u>
TOTAL LIABILITIES	<u>22,925,366</u>
NET ASSETS	
Invested in capital assets, net of related debt	(3,200,675)
Restricted for debt service	66,594
Unreserved	<u>(428,179)</u>
TOTAL NET ASSETS	<u>(3,562,260)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,363,106</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

				Governmental Activities
		Program Revenues		Net (Expense)
			Operating	Revenue and
		Charges for	Grants and	Changes in Net
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Services</u>	<u>Contributions</u>	<u>Assets</u>
Government Activities:				
Instruction and instructional support	\$ 5,421,328	\$ -	\$ 795,857	\$ (4,625,471)
Support services	2,433,297	-	-	(2,433,297)
School service	359,494	162,377	198,669	1,552
Athletics	178,080	45,866	-	(132,214)
Interest on long-term debt	582,224	-	-	(582,224)
Other debt service	146,676	-	-	(146,676)
Total Governmental Activities	<u>\$ 9,121,099</u>	<u>\$ 208,243</u>	<u>\$ 994,526</u>	<u>(7,918,330)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				627,204
Property taxes, levied for debt service				1,094,554
Other taxes				1,011
State school aid - unrestricted				5,454,170
Interest and investment earnings				20,296
Other				153,070
Transfers				<u>168,320</u>
Total general revenues and transfers				<u>7,518,625</u>
Change in Net Assets				(399,705)
Net Assets - Beginning				<u>(3,162,555)</u>
Net Assets - Ending				<u>\$ (3,562,260)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ 121,365	\$ -	\$ 21,559	\$ 142,924
Investments	1,920	-	-	1,920
Taxes receivable	43,418	53,839	-	97,257
Accounts receivable	45,085	-	2,997	48,082
Due from other governmental units	1,147,809	-	2,317	1,150,126
Due from other funds	21,796	-	-	21,796
Restricted cash	-	12,755	-	12,755
TOTAL ASSETS	<u>\$ 1,381,393</u>	<u>\$ 66,594</u>	<u>\$ 26,873</u>	<u>\$ 1,474,860</u>
LIABILITIES:				
Accounts payable	\$ 14,850	\$ -	\$ 529	\$ 15,379
Accrued expenses	246,025	-	-	246,025
Due to other funds	-	-	21,796	21,796
Short-term notes payable	1,195,069	-	-	1,195,069
Deferred revenue	1	-	-	1
TOTAL LIABILITIES	<u>1,455,945</u>	<u>-</u>	<u>22,325</u>	<u>1,478,270</u>
FUND BALANCES:				
Reserved	-	66,594	-	66,594
Unreserved	(74,552)	-	4,548	(70,004)
TOTAL FUND BALANCES	<u>(74,552)</u>	<u>66,594</u>	<u>4,548</u>	<u>(3,410)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,381,393</u>	<u>\$ 66,594</u>	<u>\$ 26,873</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,302,927
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(13,809,977)
Accrued interest is not included as a liability in governmental funds	(1,051,800)
Net assets of governmental activities	<u>\$ (3,562,260)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES:				
Local sources	\$ 831,106	\$ 1,108,952	\$ 208,287	\$ 2,148,345
State sources	6,185,748	-	9,108	6,194,856
Federal sources	214,830	-	189,561	404,391
Total revenues	7,231,684	1,108,952	406,956	8,747,592
EXPENDITURES:				
Instruction	5,043,894	-	-	5,043,894
Supporting services	2,396,381	-	-	2,396,381
School service	-	-	356,011	356,011
Athletics	-	-	169,457	169,457
Debt service	-	1,098,870	-	1,098,870
Total expenditures	7,440,275	1,098,870	525,468	9,064,613
Excess (deficiency) of revenue over expenditures	(208,591)	10,082	(118,512)	(317,021)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(116,861)	-	116,861	-
Incoming transfers - other schools	253,858	-	-	253,858
Other financing sources	(40,934)	-	-	40,934
Proceeds from sale of capital assets	1,447	-	-	1,447
Outgoing transfers - other schools	(85,538)	-	-	(85,538)
Total other financing sources (uses)	(11,972)	-	116,861	(128,833)
NET CHANGE IN FUND BALANCE	(196,619)	10,082	(1,651)	(188,188)
FUND BALANCES - BEGINNING OF YEAR	122,067	56,512	6,199	
FUND BALANCES - END OF YEAR	\$ (74,552)	\$ 66,594	\$ 4,548	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(440,081)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(96,277)
Repayment of excess school aid to the State	(195,965)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	520,806
Change in net assets of governmental activities	\$ (399,705)

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 119,812
TOTAL ASSETS	<u>\$ 119,812</u>
 LIABILITIES	
Due to student groups	\$ 49,108
Scholarship funds	<u>70,704</u>
TOTAL LIABILITIES	<u>\$ 119,812</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hancock Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Excluded from the reporting entity:

Hancock Public Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Hancock School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenues are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service and Athletic Activities.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The School District reports the following fiduciary funds:

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Scholarship Fund - The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by Hancock on December 1 and become due on February 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$37,728,749 and \$57,818,270, respectfully. Ad valorem taxes of \$647,887 were levied for operating purposes (18.0000 mills) based on non-homestead taxable valuation and \$1,094,554 for debt retirement (11.33 mills) based on homestead and non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory

All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$162,210, consisted of sick leave and vacation balances.

Teachers with a minimum of 10 years of service in the District, and all non-affiliated staff are entitled to receive 50% of their accumulated sick leave up to a maximum of 160 days upon termination at the current daily rate for substitute teachers (not to exceed \$60). Teachers eligible to retire under the provisions of MPSERS are entitled to receive 60% of their accumulated sick leave upon retirement. Unionized support staff who retire under the provisions of MPSERS, are entitled to receive 50% of their accumulated sick time up to the maximum 180 days at the rate of \$30 per day. Total accrued sick leave as of June 30, 2005 is \$142,620.

Teachers do not accumulate vacation time and the unionized support staff are required to take their vacation during the contract year or else it is forfeited. Non-affiliated staff are required to use all vacation time accrued in a school calendar year, during that school calendar year. Days accrued in a school calendar year and not used will be lost. Total accrued vacation as of June 30, 2005 is \$19,590.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETARY DATA

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the School District Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP.
6. Budgeted amounts presented in the financial statements are as originally adopted, or as amended by the Board of Education.
7. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - BUDGETING AND ACCOUNTING

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE B - BUDGETING AND ACCOUNTING (Continued)

Description	Total Appropriation	Amount of Expenditures	Budget Variances
General Fund:			
Instruction			
Basic Programs	\$3,898,950	\$3,930,302	(\$31,352)
Special Education	\$685,905	\$686,780	(\$875)
School Readiness	\$105,600	\$108,177	(\$2,577)
Title I	\$141,134	\$160,919	(\$19,785)
Supporting services			
Board of Education/Admin.	\$777,511	\$784,707	(\$7,196)
Operations and Maint./Transport.	\$1,102,013	\$1,111,903	(\$9,890)
Debt Service-Agent Fees/Misc.	\$31,753	\$36,548	(\$4,795)
School Service Fund	\$355,000	\$356,011	(\$1,011)
Athletic Fund	\$149,000	\$169,457	(\$20,457)

NOTE C - CASH AND INVESTMENTS

CASH DEPOSITS

At year-end, the School District's deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 142,849	\$ 0	\$ 142,849
Petty cash	75	0	75
Total unrestricted	142,924	0	142,924
Restricted cash	12,755	49,108	61,863
Total cash and cash equivalents	155,679	49,108	204,787
Investments	1,920	70,704	72,624
Total deposits and investments	\$ 157,599	\$ 119,812	\$ 277,411

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$204,786 with a corresponding bank balance of \$518,271. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$204,174, representing approximately 39% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$204,175 was insured and \$314,096 was neither insured or collateralized.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE C - CASH AND INVESTMENTS (Continued)

INVESTMENTS

The investment of the School District's funds is governed by state statutes. In general, state statutes provide that the School District is authorized to invest its funds in certificates of deposit, savings accounts and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

Balances held in each category at June 30, 2005 are as follows:

	Categories			Carrying Amount	Market Value
	1	2	3		
Certificate of Deposit	\$ 0	\$ 8,220	\$ 0	\$ 8,220	\$ 8,220
Scudder Intermediate Government Trust	0	7,208	0	7,208	7,310
Indices	0	9,905	0	9,905	11,624
U.S. Treasury Bonds	0	45,371	0	45,371	44,714
	<u>\$ 0</u>	<u>\$ 70,704</u>	<u>\$ 0</u>	<u>70,704</u>	<u>71,868</u>
Investments in Mutual or similar type funds not subject to credit risk categorization:					
Michigan School District Liquid Asset Fund Plus				1,920	1,920
Total Investments				<u>\$ 72,624</u>	<u>\$ 73,788</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Land	\$ 171,938	\$ 0	\$ 0	\$ 171,938
Building and additions	14,045,803	0	0	14,045,803
Improvements other than building	549,994	0	0	549,994
Equipment and furniture	2,251,452	3,024	0	2,254,476
Vehicles	54,233	0	0	54,233
School buses	343,624	0	0	343,624
Subtotal	<u>17,417,044</u>	<u>3,024</u>	<u>0</u>	<u>17,420,068</u>
Accumulated depreciation:				
Building and additions	3,869,170	281,711	0	4,150,881
Improvements other than building	143,123	27,500	0	170,623
Equipment and furniture	1,374,679	95,417	0	1,470,096
Vehicles	40,560	6,191	0	46,751
School buses	246,504	32,286	0	278,790
	<u>5,674,036</u>	<u>443,105</u>	<u>0</u>	<u>6,117,141</u>
Net capital assets	<u>\$ 11,743,008</u>	<u>\$ (440,081)</u>	<u>\$ 0</u>	<u>\$ 11,302,927</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Athletic Fund	\$ 8,623
School Service Fund	3,483
General Fund:	
Instruction	391,059
Operations	7,654
Transportation	32,286
Total governmental activities	<u>\$ 443,105</u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General	\$ 21,796	General	\$ 0
School	0	School	21,796
TOTAL	\$ 21,796	TOTAL	\$ 21,796

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General	\$ 0	General	\$ 116,861
Athletic	116,861	Athletic	0
TOTAL	\$ 116,861	TOTAL	\$ 116,861

NOTE F - SHORT-TERM NOTE PAYABLE

On August 20, 2004, the School District obtained a one year operating loan from the School Loan Fund in the amount of \$1,200,000 with an interest rate of 1.57%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 19, 2005.

NOTE G - LONG-TERM DEBT

1996 Building and Site Bonds

On November 12, 1996, the School District issued \$8,485,000 of unlimited tax general obligation bonds for the purpose of erecting, furnishing, and equipping a high school and bus garage and acquiring, developing and improving outdoor physical education facilities and sites; partially remodeling, refurbishing and re-equipping the existing Jr./Sr. high school for middle school purposes; and acquiring and installing educational technology systems.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 5.20% to 8% per annum. Interest payments began on May 1, 1997, and are payable semi-annually on May 1 and November 1 as indicated. The bonds are to be both term and serial.

Bonds maturing on or after May 1, 2007, shall be subject to redemption prior to maturity at the option of the School District, in such order as the School District may determine and by lot within any maturity, on any May 1 or November 1 occurring on or after May 1, 2006, at par and accrued interest to the date fixed for redemption.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

Payable School Year	November 1 Interest	<u>1996 ISSUE</u>		Total
		May 1 Interest	Principal	
2005-2006	\$ 176,447	\$ 176,447	\$ 6,635,000	\$ 6,987,894

2002 Advance Refunding

On February 22, 2002, the District issued \$4,575,000 of general obligation unlimited tax bonds to advance refund \$4,420,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1991 Refunding Bonds dated November 7, 1991 and to establish an "Escrow Fund." The Escrow Fund was held by an escrow agent to pay the principle and interest, and call premiums due on the refunded bonds.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.40% to 5.00% per annum. Interest payments started on November 1, 2002, and are payable semi-annually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

2002 ADVANCE REFUNDING

Payable School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$ 75,049	\$ 75,049	\$ 355,000	\$ 505,098
2006-2007	69,369	69,369	375,000	513,738
2007-2008	61,869	61,869	360,000	483,738
2008-2009	55,209	55,209	350,000	460,418
2009-2010	48,384	48,384	345,000	441,768
2010-2011	39,759	39,759	340,000	419,518
2011-2012	32,704	32,704	330,000	395,408
2012-2013	25,691	25,691	315,000	366,382
2013-2016	36,014	36,014	830,000	902,028
TOTAL	\$ 444,048	\$ 444,048	\$ 3,600,000	\$ 4,488,096

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

2004 Advance Refunding

On November 30, 2004 the District issued \$6,720,000 of general obligation unlimited tax refunding bonds to advance refund \$6,635,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

This advance refunding was undertaken to reduce total debt service payments over the next 21 years by \$341,880. Sources and uses of funds to service the old debt and the new debt and complete the refunding were as follows:

<u>Sources of Funds:</u>	
Par amount of bonds	\$ 6,720,000
Net Original Issue Discount	(8,493)
Debt Service Fund Contribution	33,000
NET SOURCES OF FUNDS	<u>\$ 6,744,507</u>
 <u>Uses of Funds:</u>	
Beginning Escrow Account Cash Balance Funded With:	
Debt Service Fund Contribution	\$ 325
Cost of the Escrow Securities Purchased with:	
Debt Service Fund Contribution	32,675
Refunding Bond Proceeds	6,606,971
Bond Insurance Premium	14,000
Underwriter's Discount	31,920
Issuance Costs	58,616
TOTAL FUNDS USED	<u>\$ 6,744,507</u>

The bond issue matures as indicated below with interest at varying rates of 2.5% to 4.65% per annum. Interest payments started on May 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2015, are by subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2014, at par plus accrued interest to the date fixed for redemption.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

2004 Advance Refunding Schedule

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$ 127,802	\$ 127,803	\$ 55,000	\$ 310,605
2006-2007	127,115	127,115	330,000	584,230
2007-2008	122,990	122,990	350,000	595,980
2008-2009	118,177	118,178	345,000	581,355
2009-2010	113,002	113,003	350,000	576,005
2010-2011	107,752	107,753	360,000	575,505
2011-2012	101,452	101,453	355,000	557,905
2012-2013	95,240	95,240	350,000	540,480
2013-2014	89,115	89,115	345,000	523,230
2014-2015	82,215	82,215	340,000	504,430
2015-2016	75,415	75,415	340,000	490,830
2016-2017	68,615	68,615	335,000	472,230
2017-2018	61,915	61,915	330,000	453,830
2018-2019	55,315	55,315	330,000	440,630
2019-2020	48,550	48,550	325,000	422,100
2020-2021	41,806	41,806	320,000	403,612
2021-2022	35,006	35,007	320,000	390,013
2022-2023	28,126	28,126	315,000	371,252
2023-2024	21,196	21,197	310,000	352,393
2024-2025	14,222	14,221	310,000	338,443
2025-2026	7,091	7,091	305,000	319,182
	<u>\$ 1,542,117</u>	<u>\$ 1,542,123</u>	<u>\$ 6,720,000</u>	<u>\$ 9,804,240</u>

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,587 of school improvement bonds for the purpose of upgrading educational technology systems, acquiring new equipment for the elementary school, updating the technology infrastructure, constructing a storage facility, and purchasing a school bus.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

As part of the State of Michigan Executive Budget Recommendation for fiscal year 2005, the bonds were "refunded." The debt service payment schedules for the districts that chose to bond have changed. However, the refunding did not change the total payments for any of the borrowers.

DURANT BOND ISSUE

Payable School Year	May 15 Interest	May 15 Principal	Total
2005-2006	\$ 1,933	\$ 4,288	\$ 6,221
2006-2007	1,729	4,491	6,220
2007-2008	1,515	4,706	6,221
2008-2009	1,291	4,930	6,221
2009-2010	1,056	5,165	6,221
2010-2011	810	5,411	6,221
2011-2012	553	5,668	6,221
2012-2013	7,419	21,937	29,356
TOTAL	<u>\$ 16,306</u>	<u>\$ 56,596</u>	<u>\$ 72,902</u>

School Bond Loan Fund

In prior years, the School District has borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2005, the balance due to the School Bond Loan Fund, including accrued interest totaling \$1,004,438, was \$4,044,637.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1991 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2005 was 3.125%.

Installment Loan

On November 18, 2002, the District entered into an installment purchase agreement with Superior National Bank & Trust Company in the amount of \$13,975 for a copy machine. This loan has an annual percentage rate of 5.0% and fixed payments in the amount of \$265.73 will be made monthly which will include interest. The loan with First National Bank Calumet-Lake Linden will expire October 18, 2007, at which time the District will legally own the copier. The following is a schedule of the loan payments:

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

COPIER INSTALLMENT LOAN

Payable School Year	Interest	Principal	Total
2005-2006	\$ 290	\$ 2,899	\$ 3,189
2006-2007	142	3,047	3,189
2007-2008	14	1,176	1,190
TOTAL	<u>\$ 446</u>	<u>\$ 7,122</u>	<u>\$ 7,568</u>

State Aid Repayment

In March of 2005, the District received information that the Captured Assessed Valuation (CAV) for the district was overstated resulting in excess school aid of \$267,182 to the district.

The Michigan Department of Education sought to recoup these funds, except for the districts which promptly document that the recoupment would cause the school district to "experience significant hardship."

The District received approval for the payments to be spread over the next five years through reductions in the state aid payment in May of each year.

STATE AID REPAYMENT SCHEDULE

<u>Year Ending</u>	<u>Amount</u>
2005-2006	\$ 53,436
2006-2007	53,436
2007-2008	53,436
2008-2009	35,657
TOTAL	<u>\$ 195,965</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE G - LONG-TERM DEBT (Continued)

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2005:

	Balance June 30, 2004	Increase	Decrease	Balance June 30, 2005	Current Portion
1996 Bond Loan	\$ 6,885,000	\$ 0	\$ 250,000	\$ 6,635,000	\$ 6,635,000
2002 Refunding Bond	3,940,000	0	340,000	3,600,000	340,000
2004 Refunding Bond	0	6,720,000	0	6,720,000	55,000
School Bond Loan	3,040,199	0	0	3,040,199	0
Durant Bond Loan	56,596	0	0	56,596	0
State Aid Repayment	0	267,182	71,217	195,965	53,436
Capital Leases	40,934	0	40,934	0	0
Installment Loans	9,879	0	2,757	7,122	2,757
	<u>13,972,608</u>	<u>6,987,182</u>	<u>704,908</u>	<u>20,254,882</u>	<u>\$ 7,086,193</u>
Accrued Interest	941,898	109,902	0	1,051,800	
Accrued Benefits	175,835	1,079	14,704	162,210	
TOTAL	<u>\$ 15,090,341</u>	<u>\$ 7,098,163</u>	<u>\$ 719,612</u>	<u>\$ 21,468,892</u>	

As of June 30, 2005, the aggregate maturities of long-term debt for the next 10 years and there after are as follows:

School Year	Interest	Principal	Total
2005-2006	\$ 760,820	\$ 7,105,623	\$ 7,866,443
2006-2007	394,839	765,974	1,160,813
2007-2008	371,247	769,318	1,140,565
2008-2009	348,064	735,587	1,083,651
2009-2010	323,829	700,165	1,023,994
2010-2011	295,833	705,411	1,001,244
2011-2012	268,866	690,668	959,534
2012-2013	249,281	686,937	936,218
2013-2018	826,578	2,520,000	3,346,578
2018-2023	417,607	1,610,000	2,027,607
2023-2026	1,089,456	3,965,199	5,054,655
TOTAL	<u>\$ 5,346,420</u>	<u>\$ 20,254,882</u>	<u>\$ 25,601,302</u>

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$747,882, which consisted of \$636,804 from the District and \$111,078 from employees electing the MIP option. These represent approximately 14.11% and 2.46% of covered payroll, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report. The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE I - FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2004-05 Foundation		\$ 6,700.00
Less Local Support:		
Non-Homestead Tax Value	35,113,583	
Multiplied by mills	0.018	
Total Local Support	<u>632,044</u>	
Divided by General Education K-12 membership	939.26	
Calculated Local Support		(672.92)
		<u>\$ 6,027.08</u>

NOTE J - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per R7120	\$ 443,372
Less State Driver's Education grant	(3,603)
Less prior year accounts receivables:	
Title I	(39,672)
Title II A	(26,101)
Plus:	
Title I accounts receivable	3,415
Title II A accounts receivable	9,303
USDA Commodities	17,677
Total Federal Financial Assistance	<u>\$ 404,391</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2005 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE K - CONTINGENT LIABILITIES

Risk Pool

Hancock Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the School District

NOTE L - SUBSEQUENT EVENT

School Loan Fund: On August 19, 2005, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the Note shall not exceed \$1,200,000 and 2.92% per annum, respectively. The note matures on August 18, 2006. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

Qualified Zone Academy Bonds: The School District has received approval for \$800,000 in Qualified Zone Academy Bonds (Interest Free Money). The bonds may be spent on just about anything except new construction. The District plans on utilizing the Qualified Zone Academy Bonds (QZAB) in purchasing an estimated 30 computers, 35 laptops, three or four buses and a copier. The funds are allowable for purchases at the elementary school only. The estimated cost of these purchases is \$400,000.

The District qualified for a QZAB because the elementary school had in excess of 35% of its students on the free/reduced lunch program. The District is in the process of establishing a partnership with an entity from the public sector to match 10% of the QZAB allocation received from the State of Michigan.

The QZAB's must be repaid in 16 years.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005

NOTE M - PRIOR PERIOD ADJUSTMENTS

General Fund - During the current year it was discovered that the beginning fund balance needed to be adjusted for the following reasons:

Deferred revenue for At-Risk funds were overstated by \$36,616, there were additional At-Risk expenditures that were not accounted for against the revenue received, therefore eliminated the deferred revenue at June 30, 2004.

Property tax receivables were overstated by \$98,547 due to the SmartZone capture of 9 mills on 2,183,762 of state equalized value in the City of Hancock, changes in taxable values in prior years confirmed by State audit of reported information from taxing authorities and Industrial Facilities Tax portion included in District's taxable value.

Prior year's reported fund balance	\$	183,997
Deferred revenue adjustment		36,616
Taxes receivable		(98,547)
Restated fund balance	\$	<u>122,066</u>

Debt Service Fund - Property tax receivables were understated by \$18,266 because the TIFA district values were used in the calculation of property taxes. The fund balance has been increased by this amount.

NOTE N - DEFICIT FUND BALANCES

The general purpose financial statements show fund deficits at June 30, 2005 in the General Fund of \$74,552.

The District's plans to eliminate the deficit over the next year with reducing expenditures. The reduction of these expenditures was addressed in the budget developed in June, 2005. The areas included eliminating and consolidating staff positions, cost effective purchases of supplies and materials, and retirement of staff members.

NOTE O - RECLASSIFICATION

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 882,708	\$ 899,627	\$ 831,106	\$ (68,521)
State sources	6,138,723	6,184,279	6,185,748	1,469
Federal sources	258,660	230,923	214,830	(16,093)
TOTAL REVENUE	7,280,091	7,314,829	7,231,684	(83,145)
EXPENDITURES:				
Instruction	5,012,404	5,004,812	5,043,894	(39,082)
Supporting services	2,311,479	2,384,989	2,396,381	(11,392)
TOTAL EXPENDITURES	7,323,883	7,389,801	7,440,275	(50,474)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(43,792)	(74,972)	(208,591)	(133,619)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	249,269	251,047	253,858	2,811
Incoming transfers - other schools	-	1,450	1,447	(3)
Lease Payments	(40,934)	(40,934)	(40,934)	-
Operating transfers out	(112,848)	(117,482)	(116,861)	(621)
Other outgoing transfers	(79,007)	(84,420)	(85,538)	(1,118)
Total other financing sources (uses)	16,480	9,661	11,972	1,069
NET CHANGE IN FUND BALANCE	(27,312)	(65,311)	(196,619)	(132,550)
FUND BALANCE - BEGINNING OF YEAR	122,067	122,067	122,067	-
FUND BALANCE - END OF YEAR	\$ 94,755	\$ 56,756	\$ (74,552)	\$ 16,648

SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 627,204	\$ 650,427
Penalties & interest on delinquent taxes	4,187	2,792
Total taxes	<u>631,391</u>	<u>653,219</u>
Other local sources:		
Investment revenue	12,452	8,715
Tuition	17,262	11,235
Rentals	15,469	16,963
Contributions	2,350	-
Day Care/Latch Key fees	58,702	81,386
Miscellaneous	93,480	111,189
Total other local sources	<u>199,715</u>	<u>229,488</u>
Total local sources	<u>831,106</u>	<u>882,707</u>
State sources:		
Unrestricted grant - State Aid	<u>5,650,135</u>	<u>5,749,940</u>
Restricted grants:		
Driver's education	3,603	7,433
Durant proceeds	8,859	8,859
Special Education	216,550	212,983
School Readiness	105,600	120,046
At-risk	196,690	203,383
Other state revenue	4,311	3,565
Total restricted grants	<u>535,613</u>	<u>556,269</u>
Total state sources	<u>6,185,748</u>	<u>6,306,209</u>
Federal sources:		
Title I	157,716	169,821
Title V	3,039	3,563
Title II	54,075	54,867
Other federal sources	-	2,200
Total federal sources	<u>214,830</u>	<u>230,451</u>
TOTAL REVENUES	<u>7,231,684</u>	<u>7,419,367</u>

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (Continued)
Year Ended 2005

	<u>2005</u>	<u>2004</u>
EXPENDITURES:		
Instruction:		
Basic program:		
Elementary School	1,606,642	1,495,936
Middle School	985,044	990,286
High School	<u>1,338,616</u>	<u>1,379,778</u>
Total basic program	<u>3,930,302</u>	<u>3,866,000</u>
Added needs:		
Special education - Elementary School	686,780	661,428
School Readiness	108,177	123,761
Compensatory education	157,716	171,820
At-Risk	<u>160,919</u>	<u>158,782</u>
Total added needs	<u>1,113,592</u>	<u>1,115,791</u>
Total instruction	<u>5,043,894</u>	<u>4,981,791</u>
Supporting services:		
Pupil:		
Guidance	134,210	135,426
Health	<u>49,181</u>	<u>44,927</u>
Total pupil	<u>183,391</u>	<u>180,353</u>
Instructional staff:		
Library	<u>125,983</u>	<u>134,980</u>
Total instructional staff	<u>125,983</u>	<u>134,980</u>
General administration:		
Board of education	37,473	33,106
Executive administration	<u>184,266</u>	<u>176,548</u>
Total general administration	<u>221,739</u>	<u>209,654</u>
School administration:		
Office of principal - Elementary School	170,244	140,459
Office of principal - Middle School	146,459	140,186
Office of principal - High School	<u>153,846</u>	<u>146,491</u>
Total school administration	<u>470,549</u>	<u>427,136</u>
Business-fiscal services	<u>92,419</u>	<u>108,199</u>
Operation & maintenance	<u>824,336</u>	<u>858,533</u>
Pupil transportation	<u>287,567</u>	<u>299,025</u>
Other technical support	<u>117,651</u>	<u>103,132</u>

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (Continued)
Year Ended 2005

	<u>2005</u>	<u>2004</u>
Community services	<u>72,746</u>	<u>84,687</u>
Total supporting services	<u>2,396,381</u>	<u>2,405,699</u>
TOTAL EXPENDITURES	<u>7,440,275</u>	<u>7,387,490</u>
EXCESS OF REVENUES OVER EXPENDITURES	(208,591)	31,877
OTHER FINANCING SOURCES (USES):		
Incoming transfers - other schools	253,858	202,701
Operating transfer out	(116,861)	(99,459)
Sale of fixed assets	1,447	-
Other outgoing transfers	(85,538)	(55,020)
Lease payments	<u>(40,934)</u>	<u>(41,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>11,972</u>	<u>7,222</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(196,619)	39,099
FUND BALANCE, BEGINNING OF YEAR	<u>122,067</u>	<u>82,968</u>
FUND BALANCE, END OF YEAR	<u>\$ (74,552)</u>	<u>\$ 122,067</u>

HANCOCK PUBLIC SCHOOLS
DEBT SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 1,094,554	\$ 1,039,627
Interest income	8,811	3,527
Penalties & interest on delinquent taxes	<u>5,587</u>	<u>5,739</u>
TOTAL REVENUES	<u>1,108,952</u>	<u>1,048,893</u>
EXPENDITURES:		
Interest on bonds	472,322	558,983
Redemption of bond principle	590,000	575,000
Agent Fees	29,660	-
Other expense	<u>6,888</u>	<u>2,192</u>
TOTAL EXPENDITURES	<u>1,098,870</u>	<u>1,136,175</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,082	(87,282)
OTHER FINANCING SOURCES (USES)		
School Bond Loan Fund proceeds	<u>-</u>	<u>83,788</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>10,082</u>	<u>(3,494)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>56,512</u>	<u>60,006</u>
FUND BALANCE, END OF YEAR	<u>\$ 66,594</u>	<u>\$ 56,512</u>

HANCOCK PUBLIC SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2005

	School		Totals	
	Service		Memorandum Only	
ASSETS AND OTHER DEBITS:		Athletic	2005	2004
Cash	\$ 17,198	\$ 4,361	\$ 21,559	\$ 32,695
Receivables	1,424	1,573	2,997	6,255
Due from other governmental units	2,317	-	2,317	2,703
TOTAL ASSETS	\$ 20,939	\$ 5,934	\$ 26,873	\$ 41,653
LIABILITIES:				
Accounts payable	\$ 529	\$ -	\$ 529	\$ 607
Accrued expenses	-	-	-	11,796
Due to other funds	21,796	-	21,796	23,050
TOTAL LIABILITIES	22,325	-	22,325	35,453
FUND EQUITY:				
Fund balance - unreserved	(1,386)	5,934	4,548	6,199
TOTAL LIABILITIES AND FUND EQUITY	\$ 20,939	\$ 5,934	\$ 26,873	\$ 41,652

HANCOCK PUBLIC SCHOOLS
SCHOOL SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Adult lunches	\$ 24,022	\$ 26,230
A-La-Carte	4,217	2,003
Student lunches	122,547	114,605
Earnings on investments	44	57
Miscellaneous	11,591	16,060
Total local sources	<u>162,421</u>	<u>158,955</u>
State sources	<u>9,108</u>	<u>12,430</u>
Federal sources:		
School lunch program	171,884	183,115
USDA entitlements	15,038	16,043
USDA bonus entitlements	2,639	1,176
Total federal sources	<u>189,561</u>	<u>200,334</u>
TOTAL REVENUES	<u>361,090</u>	<u>371,719</u>
EXPENDITURES:		
Salaries	127,510	124,718
Employee benefits	49,919	70,427
Purchase services	868	3,629
Supplies, materials, and other	177,714	168,218
TOTAL EXPENDITURES	<u>356,011</u>	<u>366,992</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,079	4,727
FUND BALANCE, BEGINNING OF YEAR	<u>(6,465)</u>	<u>(11,192)</u>
FUND BALANCE, END OF YEAR	<u>\$ (1,386)</u>	<u>\$ (6,465)</u>

HANCOCK PUBLIC SCHOOLS
ATHLETIC FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 37,243	\$ 42,451
Other	<u>8,623</u>	<u>12,576</u>
TOTAL REVENUES	<u>45,866</u>	<u>55,027</u>
EXPENDITURES:		
Salaries	78,692	68,960
Employee benefits	17,621	14,236
Purchase services	35,412	33,606
Supplies, materials, and other	<u>37,732</u>	<u>32,312</u>
TOTAL EXPENDITURES	<u>169,457</u>	<u>149,114</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(123,591)	(94,087)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>116,861</u>	<u>99,461</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(6,730)	5,374
FUND BALANCE, BEGINNING OF YEAR	<u>12,664</u>	<u>7,290</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,934</u>	<u>\$ 12,664</u>

HANCOCK PUBLIC SCHOOLS
TRUST AND AGENCY FUND - SCHOOL ACTIVITIES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
June 30, 2005

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
ASSETS				
Cash - High School	\$ 34,216	\$ 66,631	\$ 70,862	\$ 29,985
Cash - Elementary	10,624	70,428	68,761	12,291
Cash - Middle School	5,671	7,022	5,861	6,832
TOTAL ASSETS	\$ 50,511	\$ 144,081	\$ 145,484	\$ 49,108
LIABILITIES				
HIGH SCHOOL				
Athletic Fund	\$ 0	\$ 2,140	\$ 1,453	\$ 687
Book Deposit Fund	3,114	1,192	410	3,896
Boys Varsity BB	509	1,730	1,813	426
Cheerleaders 2	1,638	4,710	6,152	196
Class of 2006	2,466	1,730	2,525	1,671
Class of 2007	250	1,912	1,132	1,030
Cross Country	271	0	0	271
Drama	1,146	0	600	546
Electrathon	1,993	1,800	1,105	2,688
General	4,879	6,497	10,465	911
Girls Basketball	676	4,160	1,863	2,973
High School Pop Machines	8,238	18,181	25,444	975
Hockey	1,423	1,825	2,479	769
JROTC	1,096	4,002	4,865	233
Library	268	905	1,396	(223)
Metals Club	1,868	2,998	3,811	1,055
National Honor Society	357	451	394	414
S.A.D.D.	309	620	53	876
Science Olympiad	596	75	56	615
Spanish Club	1,232	2,445	1,707	1,970
Student Council	171	840	541	470
Varsity Football	362	0	0	362
Varsity Track	195	0	0	195
Volleyball	1,159	1,576	2,580	155
Yearbook '04 Fund	0	6,842	18	6,824
TOTAL HIGH SCHOOL	34,216	66,631	70,862	29,985
ELEMENTARY				
After School Science	610	543	643	510
LEGO	410	0	234	176
5th Grade	0	22,841	22,841	0
Boosters	3,349	23,480	22,094	4,735
Coke	60	880	840	100
Craft Day	0	170	170	0
Dress down	238	392	595	35
Econo	830	1,394	2,070	154
School Fair	254	4,597	4,851	0
Library Fines	213	877	563	527
Finnish Class	2,206	0	0	2,206
GRASP Reading/Math	0	600	600	0

HANCOCK PUBLIC SCHOOLS
TRUST AND AGENCY FUND - SCHOOL ACTIVITIES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - (CONTINUED)
June 30, 2005

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
LIABILITIES				
ELEMENTARY CONTINUED				
Coffee	420	321	598	143
Pat's	11	1,679	593	1,097
School Readiness	(144)	0	(144)	0
Child Care	597	1,860	1,726	731
Juice	126	1,239	1,013	352
Mackinac	0	2,445	2,380	65
Magazines	156	894	1,046	4
Slush	117	2,952	2,246	823
School Store	838	1,983	2,438	383
Sunshine	93	0	93	0
Target	240	281	521	0
Walmart	0	1,000	750	250
TOTAL ELEMENTARY SCHOOL	<u>10,624</u>	<u>70,428</u>	<u>68,761</u>	<u>12,291</u>
MIDDLE SCHOOL				
Pop Machine-Middle	921	1,491	978	1,434
Book Deposit Fund-M	1,033	800	830	1,003
Casual Fund	276	40	50	266
6th Grade Book Store	1,082	0	25	1,057
Jr High Student Council	439	1,326	1,717	48
Computer Fund-Middle	294	170	0	464
General- Middle School	391	822	227	986
Yearbook	1,235	2,373	2,034	1,574
TOTAL MIDDLE SCHOOL	<u>5,671</u>	<u>7,022</u>	<u>5,861</u>	<u>6,832</u>
TOTAL LIABILITIES	<u>\$ 50,511</u>	<u>\$ 144,081</u>	<u>\$ 145,484</u>	<u>\$ 49,108</u>

HANCOCK PUBLIC SCHOOLS
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2005

	Balance <u>July 1, 2004</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance <u>June 30, 2005</u>
ASSETS				
Investments	<u>\$ 71,618</u>	<u>\$ 1,268</u>	<u>\$ 2,182</u>	<u>\$ 70,704</u>
TOTAL ASSETS	<u>\$ 71,618</u>	<u>\$ 1,268</u>	<u>\$ 2,182</u>	<u>\$ 70,704</u>
LIABILITIES				
Scholarship funds				
Mary C. Orella	<u>\$ 71,618</u>	<u>\$ 1,268</u>	<u>\$ 2,182</u>	<u>\$ 70,704</u>
TOTAL LIABILITIES	<u>\$ 71,618</u>	<u>\$ 1,268</u>	<u>\$ 2,182</u>	<u>\$ 70,704</u>



Bruce A Rukkila, CPA, PC

*Full Service Accounting Firm
for the Western Upper Peninsula*

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Hancock Public Schools
Hancock, Michigan

In connection with our audit of the financial statements of Hancock Public Schools, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Over expenditures occurred in the following areas:

Description	Total Appropriation	Amount of Expenditures	Budget Variances
General Fund:			
Instruction			
Basic Programs	\$3,898,950	\$3,930,302	(\$31,352)
Special Education	\$685,905	\$686,780	(\$875)
School Readiness	\$105,600	\$108,177	(\$2,577)
Title I	\$141,134	\$160,919	(\$19,785)
Supporting services			
Board of Education/Admin.	\$777,512	\$784,707	(\$7,195)
Operations and Maint./Transport.	\$1,102,013	\$1,111,903	(\$9,890)
Debt Service-Agent Fees/Misc.	\$31,753	\$36,548	(\$4,795)
School Service Fund	\$355,000	\$356,011	(\$1,011)
Athletic Fund	\$149,000	\$169,457	(\$20,457)

We recommend that revisions be made to the budget prior to the end of the fiscal year so that over expenditures do not occur in the future.

Insured Deposits

We noted approximately thirty-nine percent (39%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of potential loss to the District.

QuickBooks Accounting Records (4th year repeat)

Each level of education (elementary, middle and secondary schools) uses accounting software to record agency fund (school activities) and athletic activities. This information is not reviewed until the end of each year. In all cases, one individual records receipts, deposits the receipts, prepares checks and reconciles the bank accounts creating a lack of segregation of duties in the receipt and disbursement accounting systems. It is recommended that a review process be established for each of these accounting programs and that internal controls in this area be improved through segregation of duties.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 11, 2005